



Property Casualty Insurers  
Association of America

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To: Committee on Financial Institutions and Insurance

Fr: Larrie Ann Brown, KS Legislative Counsel

Da: March 14, 2018

Re: Comments to the Senate Committee on Financial Institutions and Insurance- Opposition to  
2018 SB 362

Mr. Chairman and members of the Committee:

Thank you for allowing us to submit written comments regarding SB 362. The Property Casualty Insurers Association of America (PCI) is a trade association representing nearly 1,000 property and casualty insurance companies that accounts for more than 37 percent of the market. In Kansas, our members account for 38 percent of the total market, or more than \$2.4 billion in premium. We appreciate your attention to this matter and provide the following comments in opposition to SB 362.

***PCI is opposed to SB362. To best fit the needs and budgets of consumers, insurers offer a variety of policy options.***

One of the most important choices consumers make in purchasing insurance is deciding between a replacement cost policy and one that pays the actual cash value when property is damaged or destroyed. A replacement cost policy generally costs more but pays to repair or replace property to its original condition. On the other hand, actual cash value policies can be more affordable. Such policies pay to repair or replace damaged property minus depreciation and that includes the property's material and labor costs.

***Providing choice is important because not all consumers want, need or can afford replacement cost policies.***

Every consumer has unique insurance needs. For some consumers a replacement cost policy is the right choice. However, other consumers may have different needs and having a lower cost alternative available is important. Insurers should be able to provide consumers with that option.

***An Actual Cash Value Policy simply allows for depreciation and spells out the process for computing depreciation.***

Just as the value of a car depreciates with age, when insurers calculate depreciation – the entirety of the item depreciates, not just certain components of it. Actual cash value policies contemplate depreciation of damaged property as a whole, and that includes the property's tangible material components and labor costs.

***Denying a long-standing consumer choice***

SB 362 creates a "one size fits all" policy and eliminates consumer choice.

***Depreciating all costs to property is only logical, and thus has always been done in the accounting industry, appraisal industry and insurance industry.***

Looking analogously at the accounting industry, accountants depreciate both labor and materials when considering value over time for tax purposes. Similarly, neither appraisers nor assessors differentiate between costs when arriving at the depreciated costs of property.

Not all consumers want, need or can afford this type of change in an Actual Cash Value policy.

Please preserve affordable insurance options and oppose SB362. Again, PCI would welcome the opportunity to assist on that matter as appropriate. If you have any questions or comments, please do not hesitate to contact me.

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# Oppose SB 362 To Preserve Affordable Insurance Options



SB 362 would change how Actual Cash Value insurance policies work. This change could increase costs and reduce affordable insurance options for consumers.

## CONSUMERS HAVE TWO OPTIONS WHEN PURCHASING INSURANCE:

- 1 REPLACEMENT COST POLICY:**  
It costs more but pays to repair or replace property to its original condition.
- 2 ACTUAL CASH VALUE:**  
It is more affordable and pays to repair or replace property minus depreciation.

### Consumers could be left without the option to choose a lower cost policy

SB 362 would require the Actual Cash Value policy to operate more like the Replacement Cost Policy, eliminating much of the cost difference between the policies.

## HOW THIS BILL IMPACTS THE CALCULATION OF ACTUAL CASH VALUE POLICIES:

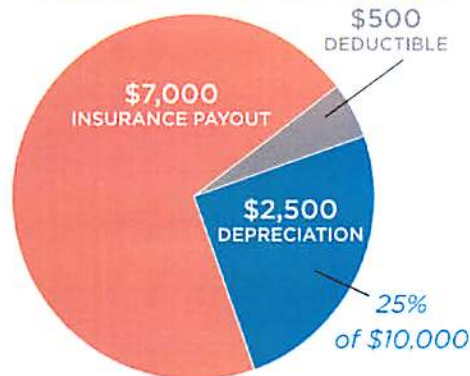
Actual Cash Value factors in depreciation of damaged property, **which includes materials and labor costs** - everything that goes into making it a useable item.

Under SB 362, depreciation is not fully included in the calculation, driving up the cost of insurance.

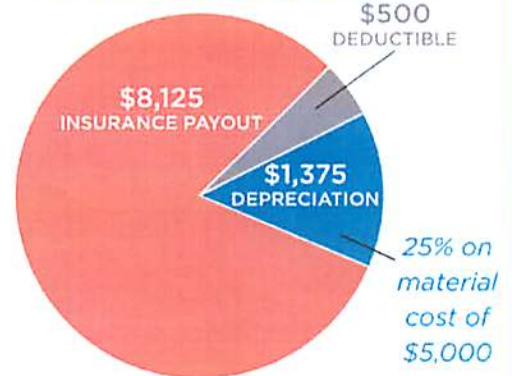


*Example: A roof replacement is \$10,000 for 5-year old roof with a 20-year useful life expectancy. Labor costs are 45% of the overall job.*

### \$10,000 CLAIM ON CURRENT ACV



### \$10,000 CLAIM UNDER SB 362



**The cost of the claim increases by 15%**

### As the overall cost of claims increase, the cost of insurance could increase

Not all consumers want, need or can afford this type of change in an Actual Cash Value policy.



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## Oppose SB 362

Allow Insurers to offer policy options to fit consumers needs

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